EXHIBIT A

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One):

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 0-22945

HELIOS & MATHESON NORTH AMERICA INC.
(Exact Name of Registrant as Specified in Its Charter)

New York (State or Other Jurisdiction of Incorporation or Organization)	**13-3169913** (I.R.S. Employer Identification No.)
200 Park Avenue South **New York, New York 10003** (Address of Principal Executive Offices)	**(212) 979-8228** (Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on which Registered
Common Stock, par value $.01 per share	NASDAQ Capital Market CM

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☐ Accelerated filer☐ Non-accelerated filer ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was

approximately $5,475,133 based on the average of the bid and asked prices of the registrant's common stock on The NASDAQ Capital Market CM on the last business day of the registrant's most recently completed second fiscal quarter.

As of March 27, 2007, there were 2,385,384 shares of the registrant's common stock, $.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the 2007 Annual Meeting of Shareholders, which will be filed on or before April 30, 2007, are incorporated by reference into Part III of this Report. See Item 15 for a list of exhibits incorporated by reference into this Report.

PART I

This Annual Report on Form 10-K contains forward-looking statements. Additional written and oral forward-looking statements may be made by the Company from time to time in Securities and Exchange Commission ("SEC") filings and otherwise. The Company cautions readers that results predicted by forward-looking statements, including, without limitation, those relating to the Company's future business prospects, revenues, working capital, liquidity, capital needs, interest costs, and income are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements due to risks and factors identified from time to time in the Company's filings with the SEC including those discussed in this Report. Part I, Item 1A Risk Factors of this Annual Report discusses risk factors.

ITEM 1. BUSINESS

General

Helios & Matheson North America Inc. (formerly The A Consulting Team, Inc.) ("Helios & Matheson" or the "Company") was incorporated in the state of New York in February of 1983 and became a public company in August of 1997. The Company is headquartered in New York, New York and has offices in Clark, New Jersey and Bangalore, India. The Company provides a wide range of information technology ("IT") consulting, custom application development and solutions to Fortune 1000 companies and other large organizations. The Company supports all major computer technology platforms and supports client IT projects by using a broad range of third-party software applications.

Effective as of January 30, 2007, the Company changed its name from The A Consulting Team, Inc. to Helios & Matheson North America Inc. The name change reflects the Company's desire to develop long term, mutually beneficial opportunities both in the United States and globally through its association with Helios & Matheson Information Technology Ltd. ("Helios & Matheson Parent"), an IT services organization with corporate headquarters in Chennai, India and the owner of approximately 52% of the Company's outstanding common stock. The Company's shares are listed on The NASDAQ Capital Market[CM] under the symbol "HMNA".

Industry Background

Rapid technological advances and the wide acceptance and use of the Internet as a driving force in commerce, accelerated the growth of the IT industry. These advances, including more powerful and less expensive computer technology, fueled the transition from predominantly centralized mainframe computer systems to open and distributed computing environments and the advent of capabilities such as relational databases, imaging, software development productivity tools, and web-enabled software. These advances expand the benefits that users can derive from computer-based information systems and improve the price-to-performance ratios of such systems. As a result, an increasing number of companies are employing IT in new ways, often to gain competitive advantages in the marketplace, and IT services have become an essential component of their long-term growth strategies. The same advances that have enhanced the benefits of computer systems rendered the development and implementation of such systems increasingly complex. In addition, there has been a trend to outsource IT development and services to third party IT service providers like the Company. Many companies outsource such work because their internal personnel lack the qualifications for certain projects or they have an insufficient number of internal staff to address all of the projects being undertaken. Outsourcing also enables companies to realize cost efficiencies through reduced personnel costs. Accordingly, organizations turned to external IT services organizations such as Helios & Matheson to develop, support and enhance their internal IT systems. The Company continued to expand its sales and recruiting function in its effort to further increase its revenues in both the short-term and the long-term.

Strategy

Helios & Matheson endeavors to provide world class IT Services in the areas of Staffing, Projects and Outsourcing to its expanding client base through high quality, value based offerings, partner based customer alignment and outstanding service delivery. It provides its clients with high quality, technology-based consulting services in the areas of migrations and conversions of legacy systems, performance optimization, business intelligence and reporting, custom development, strategic sourcing, enterprise-wide IT consulting, outsourcing and software solutions. The Company's goal is to realize consistent growth and competitive advantage through the following strategic initiatives:

Cross-sell Additional Services to Existing Clients. By offering existing clients additional IT consulting services and software, Helios & Matheson intends to leverage its existing client base. The Company's relationships with current clients provide opportunities to market additional services in current and new geographical markets.

Expand Client Base. The Company is developing additional client relationships in geographic markets where the Company maintains offices (New York, New York and Clark, New Jersey) through targeted marketing initiatives, participation in local trade shows, user group meetings and conventions and referrals from existing clients.

Offshore Expansion. The Company is dedicated to providing cost efficient competitive services to its clients through its Flexible Delivery Model which allows for dynamically configurable Onsite, Onshore or Offshore service delivery based on the needs of the clients. This capability is made possible by our investment in TACT Global Services Private Limited ("TGS"), the Company's subsidiary operating in India.

Acquisitions and Strategic Relationships. On July 19, 2002, the Company consummated the acquisition of all of the issued and outstanding capital stock of International Object Technology, Inc. ("IOT"). IOT was a privately owned, professional services firm that provided data management and business intelligence solutions, technology consulting and project management services.

On April 11, 2005, the Company completed an investment in TGS, an offshore joint venture operating in India. In September 2005, the Company increased its ownership to 100% of TGS by purchasing the interest owned by minority partners. The Company's ownership of TGS substantially enhances the Company's offshore presence in its continuing endeavor to stay competitive in the industry.

The Company continuously looks for companies and other organizations that it may acquire or develop other relationships with that are strategic to the Company's business. The Company has established certain acquisition criteria. It is primarily interested in companies and organizations that are (i) established in geographic locations of the Company, (ii) has a depth of service offerings that the Company finds attractive or (iii) a customer base that the Company can cross sell its services into.

Operational Efficiencies and Cost Reductions. The Company has restructured its operations and reduced its cost structure by migrating to a flexible workforce and reducing corporate and general administrative expenses.

Helios & Matheson Operations

Consulting, T&M, Projects, Outsourcing. Helios & Matheson provides a wide range of IT consulting services, including technology infrastructure advisory services and systems architecture design for Fortune 1000 companies and other large organizations. These services account for over 90% of the Company's revenues. The Company's solutions are based on an understanding of each client's enterprise model. The Company's accumulated knowledge may be applied to new projects such as planning, designing and implementing enterprise-wide information systems, database management services, performance optimization, migrations and conversions, strategic sourcing, outsourcing and systems integration.

Helios & Matheson delivers its IT solutions through Helios & Matheson Solution Teams composed of Client Partners, Solution Partners, Project Managers, and Technical Specialists. These professionals possess the project management skills, technical expertise and industry experience to identify and effectively address a particular client's technical needs in relation to its business objectives. Helios & Matheson's focus on providing highly qualified IT professionals allows the Company to identify additional areas of the client's business which could benefit from the Company's IT solutions, thereby facilitating the cross-marketing of multiple Company services. The Company keeps its Solution Teams at the forefront of emerging technologies through close interaction with Helios & Matheson research personnel who identify innovative IT tools and technologies. As a result, management believes that Helios & Matheson Solution Teams are prepared to anticipate client needs, develop appropriate strategies and deliver comprehensive IT services, thereby allowing the Company to deliver the highest quality IT services in a timely fashion.

A Solution Team is typically deployed from one of the Company's offices in order to provide solutions to its clients by utilizing local resources. Management's experience has been that the presence established by a local office improves the Company's ability to attract local clients, as well as its ability to attract, develop, motivate and retain locally-based IT professionals. The Company's corporate headquarters is supported by its Clark, New Jersey office, which performs many functions, allowing personnel at corporate headquarters to focus on recruiting, sales and marketing.

Business Process Outsourcing. During 2004, Helios & Matheson began to provide business process outsourcing services ("BPO") to its clients. The Company believes that this is an area where substantial growth opportunities exist. Through 2006, the Company experienced only minimal growth in this area and plans on focusing resources on growing this line of business in the future.

Software. Helios & Matheson markets and distributes a number of software products developed by independent software developers. The Company believes its relationships with over 70 software clients throughout the country provide opportunities for the delivery of additional Company consulting and training services. The software products offered by Helios & Matheson are developed in the United States, England and Finland and marketed primarily through trade shows, direct mail, telemarketing, client presentations and referrals. Revenue from the sale of software is ancillary to the Company's total revenues.

Clients

The Company's clients consist primarily of Fortune 1000 companies and other large organizations. The Company's clients operate in a diverse range of industries with a concentration in the pharmaceutical, financial services, and automotive industries. Five of the Company's top ten clients measured by revenue for the year ended December 31, 2006 had been clients for over five years. In 2006, four of the Company's largest customers were Pfizer, BMW, Mellon Investor Services and Metropolitan Life Insurance Co., representing approximately 21%, 14%, 10% and 10% of total revenues respectively. Besides these customers, no other customer represented greater than 10% of the Company's revenues. During 2007, the Company expects that a significant portion of its revenues will continue to come from these clients.

Approximately, 96%, 99% and 99% of all of the Company's revenues were derived from sources within the United States for the years ended December 31, 2006, 2005 and 2004, respectively.

New Business Enabling Technologies

Helios & Matheson continuously investigates new business enabling technologies developed by third parties to determine their viability and potential acceptance in the Fortune 1000 marketplace. The Company's staff works diligently to identify those "bleeding-edge" technologies that will succeed as "leading-edge" business solutions. Helios & Matheson personnel are highly qualified in delivering these technology enabled business solutions.

Sales and Marketing

The Company's marketing strategy is to develop long-term mutually beneficial relationships with existing and new clients that will lead to the Company becoming a preferred provider of IT services. The Company seeks to employ a "cross selling" approach where appropriate to expand the number of services utilized by a single client. Other sales and marketing methods include client referrals, networking and attending trade shows. At December 31, 2006, the Company employed 10 sales and marketing personnel. Another marketing resource, which has also served the Company in its recruiting efforts, is the Company's web site at http://www.hmna.com. The web site provides information about the Company's consulting services and software products to the IT community.

Competition

The market for IT consulting services is intensely competitive. It is affected by rapid technological advances and includes a large number of competitors. The Company's competitors include the current or former consulting divisions of "Big Four" accounting firms, systems consulting and implementation firms, application software development firms, management consulting firms, divisions of large hardware and software companies, offshore outsourcing companies and niche providers of IT services. Many of these competitors have significantly greater financial, technical and marketing resources and greater name recognition than the Company. In addition, the Company competes with its clients' internal resources, particularly when these resources represent an existing cost to the client. Such competition may impose additional pricing pressures on the Company.

The Company believes that the principal competitive factors in the IT services market include breadth of services offered, technical expertise, knowledge and experience in the industry, quality of service and responsiveness to client needs. The Company believes it competes primarily based on its in-depth technical expertise, timely delivery of products and services and quality of service.

A critical component of the Company's ability to compete in the marketplace is its ability to attract, develop, motivate and retain skilled professionals. The Company believes it can compete favorably in hiring such personnel by offering competitive compensation packages and attractive assignment opportunities.

Human Resources

At December 31, 2006, the Company had 98 personnel, of whom 60 were consultants, 6 were recruiting personnel, 10 were sales and marketing personnel, 3 were technical and customer service personnel and 19 were executive, financial and administrative personnel. None of the Company's employees are represented by a labor union, and the Company has never incurred a work stoppage. In addition to the Company's 98 personnel, the Company was utilizing the services of 51 independent contractors at December 31, 2006. These independent contractors act as consultants and they are not employees of the Company. There can be no assurance that the services of a sufficient number of consultants and independent contractors will continue to be available to the Company on terms acceptable to the Company or with the qualifications necessary for the Company to efficiently operate and grow its business.

Long-Lived Assets

Substantially, all of the Company's long-lived assets were located in the United States for the years ended December 31, 2006, 2005 and 2004, respectively.

Intellectual Property Rights

The Company relies upon a combination of nondisclosure and other contractual arrangements and trade secret, copyright and trademark laws to protect its proprietary rights and the proprietary rights of third parties from whom the Company licenses intellectual property. The Company has entered into confidentiality agreements with its employees and limits distribution of proprietary information. There can be no assurance, however, that the steps taken by the Company in this regard will be adequate to deter misappropriation of proprietary information or that the Company will be able to detect unauthorized use and take appropriate steps to enforce its intellectual property rights.

Effective as of January 30, 2007, the Company changed its name from The A Consulting Team, Inc. to Helios & Matheson North America Inc. The name change reflects the Company's desire to develop long term, mutually beneficial opportunities both in the United States and globally through its association with Helios & Matheson Parent, an information technology services organization with corporate headquarters in Chennai, India and the owner of approximately 52% of the Company's outstanding common stock. Helios & Matheson Parent has granted the Company a non-exclusive right to use the name "Helios & Matheson" and related trademarks, service names and service marks. Helios & Matheson Parent has the right to terminate the Company's right to use such name and related trademarks and service marks upon each of the following events: (i) the Company duly and properly effectuates a change of the Company's corporate name which change is not consented to or approved by Helios & Matheson Parent; (ii) the Company consummates a business combination or merger, pursuant to which the Company is not the surviving corporation, or the Company consummates a sale of all or substantially all of its assets without the consent or approval of Helios & Matheson Parent and (iii) the Company files, or becomes a debtor subject to, a bankruptcy proceeding which proceeding or filing was not commenced by Helios & Matheson Parent or consented to by Helios & Matheson Parent. The Company could be materially adversely affected if Helios & Matheson Parent terminated the Company's rights to use such name and the related trademarks and service marks as the Company would be forced to change its name, commence marketing under a new name and would not be able to enjoy the benefits of the Company's marketing efforts under the name Helios & Matheson. The Company is reliant upon Helios & Matheson Parent to protect the Helios & Matheson's trademarks, trade names, service marks and service names.

All ownership rights to software developed by the Company in connection with a client engagement are typically assigned to the client. In limited situations, the Company may retain ownership or obtain a license from its client, which permits the Company or a third party to market the software for the joint benefit of the client and the Company or for the sole benefit of the Company.

Seasonality

The Company's business has not been affected by seasonality.

ITEM 1A. RISK FACTORS

Factors that Could Affect Operating Results

Statements included in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this document that do not relate to present or historical conditions are "forward-looking statements" within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and in Section 21E of the Securities Exchange Act of 1934, as amended. Additional oral or written forward-looking statements may be made by the Company from time to time, and such statements may be included in documents that are filed with the SEC. Such forward-looking statements involve risk and uncertainties that could cause results or outcomes to differ materially from those expressed in such forward-looking statements. Forward-looking statements may include, without limitation, statements made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Words such as "believes," "forecasts," "intends," "possible," "expects," "estimates," "anticipates," or "plans" and similar expressions are intended to identify forward-looking statements. The Company cautions readers that results predicted by forward-looking statements, including, without limitation, those relating to the Company's future business prospects, revenues, working capital, liquidity, capital needs, interest costs, and income are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to the following factors, among other risks and factors identified from time to time in the Company's filings with the SEC. Among the important factors on which such statements are based are assumptions concerning the anticipated growth of the information technology industry, the continued needs of current and prospective customers for the Company's services, the availability of qualified professional staff, and price and wage inflation.

Operating Losses

The Company incurred an operating loss for the year ended December 31, 2005, of ($461,000) and a net loss of ($484,000). There is no guarantee that the Company can achieve or sustain profitability on a quarterly or annual basis in the future. If revenues grow slower than anticipated, or if operating expenses exceed expectations or cannot be adjusted accordingly the Company could experience losses and the results of operations and financial condition would be materially and adversely affected.

Capital Requirements

The Company may be unable to meet its future capital requirements. The Company has a line of credit up to $4.0 million with Keltic Financial Partners, LP ("Keltic") based on the Company's eligible accounts receivable balances. Net availability at December 31, 2006 was approximately $2.0 million. The Keltic line of credit is due to expire on June 27, 2007. The Company may require additional financing in the future in order to continue to implement its product and services development, marketing and other corporate programs. The Company may not be able to obtain such financing or obtain it on acceptable terms. Without additional financing, the Company may be forced to delay, scale back or eliminate some or all of its product and services development, marketing and other corporate programs. If the Company is able to obtain such financing, the terms may contain restrictive covenants that might negatively affect its shares of common stock, such as limitations on payments of dividends or, in the case of a debt financing, reduced earnings due to interest expenses. Any further issuance of equity securities would likely have a dilutive effect on the holders of its shares of common stock. Its business, operating results and financial condition may be materially harmed if revenues do not develop or grow slower than the Company anticipates, if operating expenses exceed the Company's expectations or cannot be reduced accordingly, or if the Company cannot obtain additional financing.

Dependence on Limited Number of Clients

The Company derives a significant portion of its revenues from a relatively limited number of clients primarily located in the New York/New Jersey metropolitan area of the United States. Adverse economic conditions affecting this region could have an adverse effect on the financial condition of its clients located there, which in turn could adversely impact the Company's business and future growth. For the year ended December 31, 2006, the Company had four customers which accounted for 21%, 14%, 10% and 10% of revenues, respectively. For the year ended December 31, 2005, the Company had three customers which accounted for 21% 20% and 15% of revenues, respectively. For the year ended December 31, 2004, the Company had two customers which accounted for 20% and 19% of revenues, respectively. Besides these customers, no other customer represented greater than 10% of the Company's revenues. In any given year, its ten most significant customers may vary based upon specific projects for those clients during that year. There can be no assurance that the Company's significant clients will continue to engage it for additional projects or do so at the same revenue levels.

Clients engage the Company on an assignment-by-assignment basis, and a client can generally terminate an assignment at any time without penalties. The loss of any significant customer could have a material adverse effect on the Company's business, results of operations and financial condition. A failure of the Company to develop relationships with new customers could have a material adverse effect on the Company's business, results of operations and financial condition.

Project Risk

The Company's projects entail significant risks. Many of its engagements involve projects that are critical to the operations of its clients' businesses and provide benefits that may be difficult to quantify. The Company's failure or inability to meet a client's expectations in the performance of the Company's services could result in a material adverse change to the client's operations and therefore could give rise to claims against the Company or damage its reputation, adversely affecting its business, results of operations and financial condition.

Rapid Technological Change

The Company's business is subject to rapid technological change and is dependent on new solutions. Its success will depend in part on its ability to develop information technology solutions to meet client expectations, and offer software services and solutions that keep pace with continuing changes in information technology, evolving industry standards, changing client preferences and a continuing shift to outsourced solutions by clients. The Company cannot assure you that it will be successful in adequately addressing the outsourcing market or other information technology developments on a timely basis or that, if addressed, the Company will be successful in the marketplace. The Company also cannot assure you that products or technologies developed by others will not render its services uncompetitive or obsolete. Its failure to address these developments could have a material adverse effect on its business, results of operations and financial condition.

Billing Margins

The Company's ability to maintain billing margins is uncertain. It derives revenues primarily from the hourly billing of consultants' services and, to a lesser extent, from fixed-price projects. Its most significant cost is project personnel cost, which consists of consultant salaries and benefits as well as costs of subcontractors. Thus, its financial performance is primarily based upon billing margin (billable hourly rate less the consultant's hourly cost) and personnel utilization rates (number of days worked by a consultant during a semi-monthly billing cycle divided by the number of billing days in that cycle). The gross margin decreased slightly in 2006 and 2005 due to the mix of time and material work compared to fixed price projects, and was not affected by the consultant utilization rate, which remained at approximately the same level (88% in 2006 and 89% in 2005). The gross margin increased in 2004 due to a higher consultant utilization rate (89% in 2004 compared to 79% in 2003), and higher margin on fixed price contracts. There can be no assurance, however, that the Company's revenues will continue to be billed primarily on a time and materials basis or that the Company's cost containment and workforce rationalization effects will continue to provide positive results. In addition, during the past three years the Company's clients have been adverse to increases in any costs of the Company's services.

Managing Growth

The Company may have difficulty managing future growth. Its expansion is dependent upon, among other things,

- its ability to hire and retain consultants as employees or independent consultants,
- its ability to identify suitable new geographic markets with sufficient demand for its services, hire and retain skilled management, marketing, customer service and other personnel, and successfully manage growth, including monitoring operations, controlling costs and maintaining effective quality and service controls, and
- if the Company consummates additional acquisitions, its ability to successfully and profitably integrate any acquired businesses into its operations.

If the Company's management is unable to manage growth or new employees or consultants are unable to achieve anticipated performance levels, its business, results of operations and financial condition could be materially adversely affected.

Fluctuations in Quarterly Operating Results

The Company's quarterly results of operations are variable. Variations in revenues and results of operations occur from time to time as a result of a number of factors, the size and significance of client engagements commenced and completed during a quarter, the number of business days in a quarter, consultant hiring and utilization rates and the timing of corporate expenditures. The timing of revenues is difficult to forecast because the sales cycle can be relatively long and may depend on such factors as the size and scope of assignments and general economic conditions. A variation in the number of client assignments or the timing of the initiation or the completion of client assignments, particularly at or near the end of any quarter, can cause significant variations in results of operations from quarter to quarter and can result in losses to it. In addition, its engagements generally are terminable by the client at any time without penalties. Although the number of consultants can be adjusted to correspond to the number of active projects, the Company must maintain a sufficient number of senior consultants to oversee existing client projects and to assist with its sales force in securing new client assignments. An unexpected reduction in the number of assignments could result in excess capacity of consultants and increased selling, general and administrative expenses as a percentage of revenues. The Company has also experienced, and may in the future experience, significant fluctuations in the quarterly results of its software sales as a result of the variable size and timing of individual license transactions, competitive conditions in the industry, changes in customer budgets, and the timing of the introduction of new products or product enhancements. In the event that its results of operations for any period are below the expectation of market analysts and investors, the market price of its shares of common stock could be adversely affected.

Volatility of Stock Price

The Company's common stock may be subject to wide fluctuations in price in response to variations in quarterly results of operations and other factors, including acquisitions, technological innovations and general economic or market conditions. In addition, stock markets have experienced extreme price and volume trading volatility in recent years. This volatility has had a substantial effect on the market price of many technology companies and has often been unrelated to the operating performance of those companies. This volatility may adversely affect the market price of its common stock. Additionally, there can be no assurance that a trading market for the common stock will be sustained.

Competition

The market for information technology services includes a large number of competitors, is subject to rapid change and is highly competitive. Its primary competitors include participants from a variety of market segments, including the current and former consulting divisions of the "Big Four" accounting firms, interactive advertising agencies, web development companies, systems consulting and implementation firms, application software firms and management consulting firms. Many of these competitors have significantly greater financial, technical and marketing resources and greater name recognition than the Company. In addition, the Company competes with its clients' internal resources, particularly when these resources represent a fixed cost to the client. In the future, such competition may impose additional pricing pressures on the Company. The Company cannot assure you that it will compete successfully with its existing competitors or with any new competitors.

Intellectual Property Rights

The Company's business includes the development of custom software applications in connection with specific client engagements. Ownership of such software is generally assigned to the client. The Company relies upon a combination of nondisclosure and other contractual arrangements and trade secret, copyright and trademark laws to protect its proprietary rights and the proprietary rights of third parties from whom the Company license intellectual property. The Company enters into confidentiality agreements with its employees and limits distribution of proprietary information. However, the Company cannot assure you that the steps taken by it in this regard will be adequate to deter misappropriation of proprietary information or that the Company will be able to detect unauthorized use and take appropriate steps to enforce its intellectual property rights. The Company is subject to the risk of litigation alleging infringement of third-party intellectual property rights. Any such claims could require it to spend significant sums in litigation, pay damages, develop non-infringing intellectual property or acquire licenses to the intellectual property, which is the subject of the asserted infringement.

Effective as of January 30, 2007, the Company changed its name from The A Consulting Team, Inc. to Helios & Matheson North America Inc. The name change reflects the Company's desire to develop long term, mutually beneficial opportunities both in the United States and globally through its association with Helios & Matheson Parent, an information technology services organization with corporate headquarters in Chennai, India and the owner of approximately 52% of the Company's outstanding common stock. Helios & Matheson Parent has granted the Company a non-exclusive right to use the

name "Helios & Matheson" and related trademarks, service names and service marks. Helios & Matheson Parent has the right to terminate the Company's right to use such name and related trademarks and service marks upon each of the following events: (i) the Company duly and properly effectuates a change of the Company's corporate name which change is not consented to or approved by Helios & Matheson Parent; (ii) the Company consummates a business combination or merger, pursuant to which the Company is not the surviving corporation, or the Company consummates a sale of all or substantially all of its assets without the consent or approval of Helios & Matheson Parent and (iii) the Company files, or becomes a debtor subject to, a bankruptcy proceeding which proceeding or filing was not commenced by Helios & Matheson Parent or consented to by Helios & Matheson Parent. The Company could be materially adversely affected if Helios & Matheson Parent terminated the Company's rights to use such name and the related trademarks and service marks as the Company would be forced to change its name, commence marketing under a new name and would not be able to enjoy the benefits of the Company's marketing efforts under the name Helios & Matheson. The Company is reliant upon Helios & Matheson Parent to protect the Helios & Matheson's trademarks, trade names, service marks and service names.

Shareholder Influence

Helios & Matheson Parent owns approximately 52.0% of the issued and outstanding voting securities of the Company. Therefore, Helios & Matheson Parent has control over matters requiring shareholder approval, including the election of directors and approval of certain corporate transactions. The impact of this change in control on the Company's business and operations cannot be predicted at this time.

ITEM 2. PROPERTIES

The Company's executive office is located at 200 Park Avenue South, New York, New York 10003. The Company's executive office is approximately 6,000 square feet and is located in a leased facility with a term expiring on July 31, 2007. The Company also leases approximately 7,000 square feet in a facility in Clark, New Jersey. The lease on this facility expires on August 31, 2007. The Company is in the process of negotiating the renewals of both of these leases and considering alternative leasing arrangements.

ITEM 3. LEGAL PROCEEDINGS

The Company is not involved in any significant legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the fourth quarter of the year ended December 31, 2006. The Company plans to hold its 2007 Annual Shareholder Meeting in the second quarter of 2007.

ITEM 4.01. EXECUTIVE OFFICERS OF REGISTRANT.

The following section sets forth information as to each executive officer of Helios & Matheson, including his age, present principal occupation, other business experience during the last five years, directorships in other publicly-held companies, and period of service with the Company.

Shmuel BenTov, 52, is the founder of Helios & Matheson and has been the Chairman of the Board and Chief Executive Officer of the Company since its establishment in 1983. Mr. BenTov received a B.Sc. in Economics and Computer Science in 1979 from the Bar-Ilan University in Israel. From 1979 to 1983, Mr. BenTov was a consultant Database Administrator and then an Account Manager with Spiridellis & Associates. From 1972 to 1979, Mr. BenTov served with the Israeli Defense Forces as a Programmer, Analyst, Project Manager, Database Administrator and Chief Programmer.

Michael Prude, 44, has been the Chief Operating Officer of the Company since June 5, 2006. Mr. Prude has been a full-time employee of Helios & Matheson since 1993 and prior to his promotion to Chief Operating Officer, he held various positions within the Company, the last of which was as Chief Technology Officer, pursuant to which he had responsibilities for sales, recruiting and project delivery. Mr. Prude has over 20 years of experience providing business technology solutions to Fortune 1,000 clients. He began his career managing development projects for Long Island Trust Co. and has delivered technology solutions for numerous financial services organizations such as Citibank and Barclays. Prior to joining Helios & Matheson, Mr. Prude formed his own consulting company which provided services to organizations such as Chase Manhattan Bank, First Boston, Manufacturers Hanover Trust and CCH Legal.

Salvatore M. Quadrino, 60, has been the Chief Financial Officer of the Company since May 1, 2006 and Secretary since April 26, 2006. From January 2004 through May 1, 2006, Mr. Quadrino served as an independent consultant providing Finance and Accounting solutions to clients as either interim chief financial officer or project manager. From 2002 to 2004, Mr. Quadrino served as Chief Financial Officer for Con Edison Communications, Inc. From 2000 to 2001 Mr. Quadrino served as the Chief Financial Officer for Submit Order Inc. Prior to 2000, Mr. Quadrino served as Chief Financial Officer for Medical Logistics Inc., COVISTA Communications Inc. and Erols Internet, Inc. From 1990 to 1996, Mr. Quadrino was employed by Suburban Propane Partners LP, initially as Chief Financial Officer, then as President and Chief Executive Officer. In the role of President and Chief Executive Officer, Mr. Quadrino led Suburban Propane in its successful initial public offering and listing on the New York Stock Exchange. Mr. Quadrino is a Certified Public Accountant.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Price Range of Common Stock

The Company's common stock is currently listed on The NASDAQ Capital Market[CM] ("NASDAQ") under the symbol "HMNA." The Company completed an initial public offering of its common stock on August 8, 1997 and was listed on the NASDAQ National Market. In August 2002, the Company's common stock transitioned to the NASDAQ Capital Market [CM].

On January 7, 2004, the Company effected a one-for-four reverse stock split of its common stock. Accordingly, the share and per share data throughout this document have been retroactively adjusted to reflect the reverse stock split.

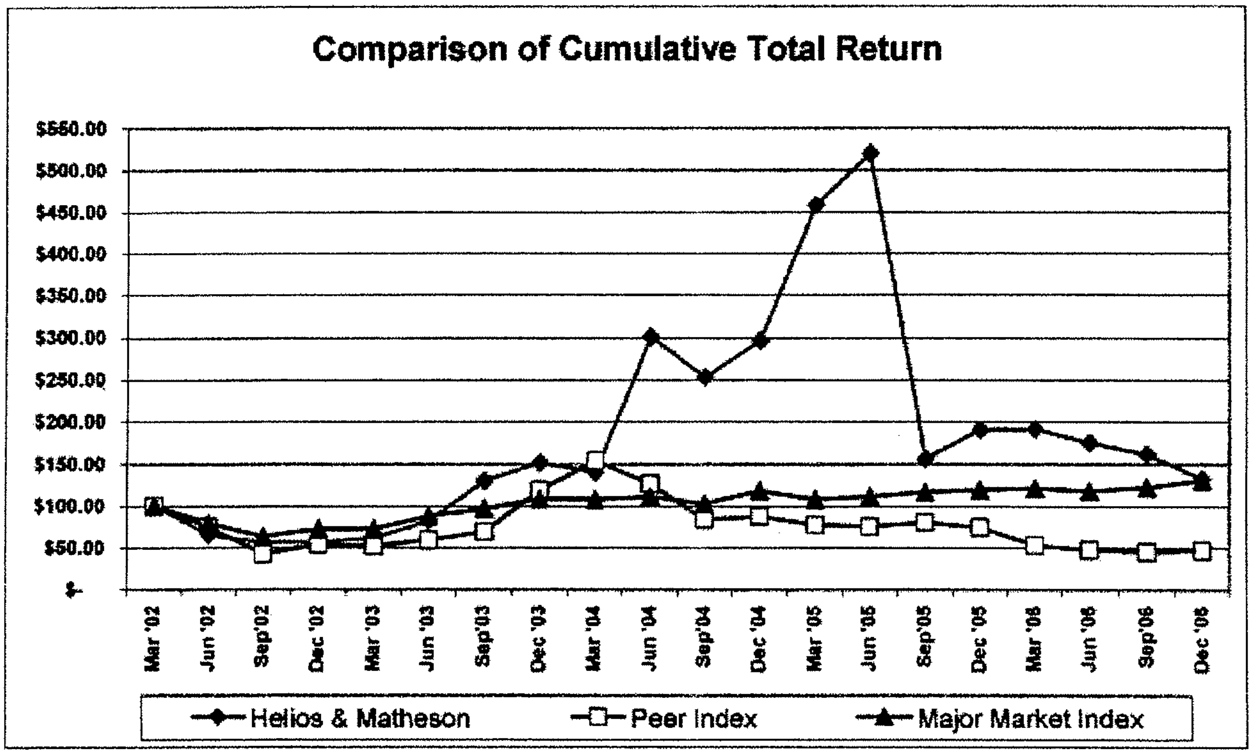
The following table sets forth the quarterly range of high and low sale prices of the Company's common stock since January 1, 2005 as reported by NASDAQ:

2005	High	Low
First Quarter	$12.10	$5.96
Second Quarter	15.00	8.00
Third Quarter	18.75	3.32
Fourth Quarter	5.00	3.00

2006	High	Low
First Quarter	$5.23	$3.79
Second Quarter	6.92	3.60
Third Quarter	4.84	3.50
Fourth Quarter	5.00	2.78

Performance Graph

The following graph depicts the performance of $100 invested on March 31, 2002 in the Company's common stock on (i) a Peer Index of selected Information Technology and e-Services companies and (ii) the Nasdaq® Major Market Computer and Data Processing Services Index. The comparison assumes reinvestment of all dividends on a quarterly basis for the years ended December 31, 2002, 2003, 2004, 2005 and 2006. Shareholder returns over the indicated periods should not be considered indicative of future shareholder returns.



Dividends

The Company has not paid any cash dividends on its common stock.

The Company is prohibited from paying dividends on its stock due to restrictions under the Loan and Security Agreement between the Company and Keltic. Keltic has consented to the payment of dividends on the Series A and Series B Preferred Stock, provided an event of default does not exist. There were no outstanding shares of Series A or Series B Preferred Stock as of December 31, 2006 and December 31, 2005, respectively.

Holders

The Company estimates that there were approximately 21 holders of record of the Company's common stock as of March 27, 2007. The Company believes that the number of beneficial shareholders exceeds 400.

Recent Sales of Unregistered Securities

None.

Equity Compensation Plan Information

This information is incorporated by reference from the Company's Proxy Statement for the Annual Meeting of Shareholders to be held in 2007. The Company intends to file its Proxy Statement with the SEC on or before April 30, 2007.

ITEM 6. SELECTED FINANCIAL DATA

The following table contains certain financial and operating data and is qualified by the more detailed Consolidated Financial Statements and Notes thereto included herein. The selected financial data in the table is derived from the Company's Consolidated Financial Statements and Notes thereto, which includes financial data from IOT from the date of acquisition on July 19, 2002 and from TGS from the date of acquisition on September 30, 2005. The selected financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto and other financial information included herein.

Selected Financial Data
(in thousands, except number of shares and per share data)

	Year Ended December 31,				
	2006	2005	2004	2003	2002
Statement of Operations Data:					
Revenues	$ 24,940	$ 26,432	$ 25,035	$ 21,646	$ 24,009
Income (loss) from operations	900	(461)	1,360	(42)	(130)
Other income(expense):					
Gain from extinguishment of debt	—	—	—	—	49
Net income (loss)	852	(484)	1,237	(123)	204
Net income (loss) per share					
Basic	$ 0.36	$ (0.22)	$ 0.57	$ (0.07)(1)	$ 0.10(1)
Diluted	$ 0.35	$ (0.22)	$ 0.53	$ (0.07)(1)	$ 0.10(1)
Weighted average shares used in per share calculation -basic	2,380,699	2,285,874	2,110,072	2,098,810(1)	1,923,615(1)
Weighted average shares used in per share calculation -diluted	2,404,946	2,285,874	2,312,021	2,098,810(1)	1,996,672(1)
Balance Sheet Data					
Total assets	$ 9,789	$ 8,493	$ 8,650	$ 7,374	$ 8,046
Long-term liabilities	—	—	13	231	386
Shareholders' equity	7,209	6,205	6,423	5,193	5,325
Number of shares outstanding at year end	2,382,801	2,361,333	2,122,647	2,107,967(1)	2,096,717(1)

(1) All share and per share amounts have been restated to reflect the one for four reverse stock split of the Company's common stock, which occurred on January 7, 2004

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of significant factors affecting the Company's operating results and liquidity and capital resources should be read in conjunction with the accompanying Consolidated Financial Statements and related Notes.

Overview

Since 1983, Helios & Matheson has provided IT services and solutions to Fortune 1000 companies and other large organizations. In 1997, Helios & Matheson became a public company headquartered in New York, New York. In addition, the Company has offices in Clark, New Jersey and Bangalore, India. The Company's common stock is currently listed on NASDAQ Capital Market CM. under the symbol "HMNA". Prior to January 30, 2007, the Company's name was The A Consulting Team, Inc.

Helios & Matheson provides clients with enterprise-wide information technology consulting services and software products. The Company's solutions cover the entire spectrum of IT needs, including applications, data, and infrastructure. Helios & Matheson provides complete project life-cycle services from application and system design, through development and implementation, to documentation and training. Strategic alliances with leading software vendors ensure that the Company's solutions are dependable and within the mainstream of industry trends. These partnerships allow Helios & Matheson to provide a wide variety of business technology solutions such as enterprise reporting solutions, data warehousing, systems strategies, application and database conversions, and application development services.

When Helios & Matheson is engaged by its clients to implement IT solutions or services, it uses its SMART Approach. Helios & Matheson's SMART Approach is a leading edge set of end-to-end solutions and services that include Strategy, Methodology, Architecture, Resources and Tools. The Strategy is developed together with the client to ensure that the client's goals and objectives are met. The Methodology is a tried and true Helios & Matheson Methodology that is followed in order to implement the Strategy. The solutions and services are built on a robust Architecture, utilize highly qualified Helios & Matheson Resources and exploits best-of-breed Tools.

Helios & Matheson is an end-to-end IT solutions and services provider focused on leveraging existing systems and data. The Company's goal is to empower customers through the utilization of technology to reduce costs, improve services and increase revenues. The Company delivers migrations and conversions of legacy systems, web enablement of existing systems, custom development, performance optimization, migrations and conversions, outsourcing, strategic sourcing and enterprise wide IT consulting, and software solutions. In addition, Helios & Matheson established TGS, in order to enhance its offshore presence in its continuing effort to stay competitive in the industry. Growth in IT services has become more price competitive. The Company's ability to blend more offshore work into its pricing will allow it to be more price competitive.

Rapid technological advances and the wide acceptance and use of the Internet as a driving force in commerce, accelerated the growth of the IT industry. These advances, including more powerful and less expensive computer technology, fueled the transition from predominantly centralized mainframe computer systems to open and distributed computing environments and the advent of capabilities such as relational databases, imaging, software development productivity tools, and web-enabled software. These advances expand the benefits that users can derive from computer-based information systems and improve the price-to-performance ratios of such systems. As a result, an increasing number of companies are employing IT in new ways, often to gain competitive advantages in the marketplace, and IT services have become an essential component of their long-term growth strategies. The same advances that have enhanced the benefits of computer systems rendered the development and implementation of such systems increasingly complex. In addition, there has been a trend to outsource IT development and services to third party IT service providers like the Company. Many companies outsource such work because their internal personnel lack the qualifications for certain projects or they have an insufficient number of internal staff to address all of the projects being undertaken. Outsourcing also enables companies to realize cost efficiencies through reduced personnel costs. Accordingly, organizations turned to external IT services organizations such as Helios & Matheson to develop, support and enhance their internal IT systems. The Company continued to expand its sales and recruiting function in its effort to further increase its revenues in both the short-term and the long-term. The Company experienced a delay in the start of projects from existing customers and extended lead times in closing new projects, both of which impacted revenue growth, through 2006.

Approximately, 64% of the Company's consulting services revenues were generated from the hourly billing of its consultants' services to its clients under time and materials engagements, with the remainder generated under fixed-price engagements for 2006. The Company has established standard-billing guidelines for consulting services based on the type of service offered. Actual billing rates are established on a project-by-project basis and may vary from the standard guidelines. The Company typically bills its clients for time and materials services on a semi-monthly basis. Arrangements for fixed-price engagements are made on a case-by-case basis. Consulting services revenues generated under time and materials engagements are recognized as those services are provided. Revenues from fixed fee contracts are recorded when work is performed on the basis of the proportionate performance method, which is based on costs incurred to date relative to total estimated costs.

The Company has also generated revenues by selling software licenses. In addition to initial software license fees, the Company also derives revenues from the annual renewal of software licenses. Revenues from the sale of software licenses are recognized upon delivery of the software to a customer, because future obligations associated with such revenue are insignificant. The Company views software sales as ancillary to its core consulting services business. Revenue generated from software sales will vary from period to period.

The Company's most significant operating cost is its personnel cost, which is included in cost of revenues. As a result, the Company's operating performance is primarily based upon billing margins (billable hourly rate less the consultant's hourly cost) and consultant utilization rates (number of days worked by a consultant during a semi-monthly billing cycle divided by the number of billing days in that cycle). Gross margins improved through 2005, primarily due to improved utilization rates and decreases in consultant costs. Through the second quarter of 2006, while utilization rates remained relatively constant, gross margin decreased. The decrease in gross margin was attributable to a change in the mix of time and material work compared to fixed price projects due to the completion of two major fixed price contracts at the end of 2005 and the increased salary costs of consultants. During the third quarter of 2006, gross margin improved primarily due to improved utilization rates and a decrease in consultant costs. During the fourth quarter of 2006, utilization rates declined but gross margin increased. This increase in gross margin was primarily a result of an increase in higher margin project revenue recognized related to a fixed price project entered into during the fourth quarter of 2006. Large portions of the Company's engagements are on a time and materials basis. While most of the Company's engagements allow for periodic price adjustments to address, among other things, increases in consultant costs, to date clients have been adverse to accepting cost increases. Helios & Matheson also actively manages its personnel utilization rates by constantly monitoring project requirements and timetables. Through the Company's cost containment and work force rationalization efforts, Helios & Matheson's recent utilization rate is currently at 88%. As projects are completed, consultants either are re-deployed to new projects at the current client site or to new projects at another client site or are encouraged to participate in Helios & Matheson's training programs in order to expand their technical skill sets. The Company carefully monitors consultants that are not utilized and has established guidelines for the amount of non-billing time that it allows before a consultant is terminated.

On July 19, 2002, the Company acquired all of the common stock of IOT for a combination of deferred cash consideration of $650,000 and 317,500 shares of Helios & Matheson unregistered common stock, which has been retroactively adjusted to reflect the one-for-four reverse stock split that occurred on January 7, 2004 and was valued at $635,000. The acquisition of IOT was accounted for using the purchase method of accounting. Accordingly, the results of operations of IOT are included in the Company's consolidated results of operations from the date of acquisition. The purchase price of the acquisition exceeded the fair market value of the net assets acquired, resulting in the recording of goodwill of $1,181,520 and other identifiable intangibles of $312,000 with the identifiable intangible assets being amortized over a three year period on a straight line basis. These intangible assets were fully amortized during 2005. IOT was a privately owned, professional services firm that provided data management and business intelligence solutions, technology consulting and project management services. During the first quarter of 2006, IOT's operations were fully integrated into Helios & Matheson.

On April 11, 2005, the Company completed an investment in TGS, an offshore joint venture, in the amount of $250,000, which represented approximately a 68% ownership. A minority partner invested $100,000 for the remaining 32% ownership. From April 11, 2005 to September 2005, the Company recorded its proportionate ownership share of the results of TGS. In September 2005, the Company increased its ownership to 100% by purchasing the minority partners investment for $100,000. From September 2005 to December 31, 2006, the Company has consolidated the results of TGS in its financial statements.

On January 21, 2005, the Company entered into a Share Exchange Agreement (the "Share Exchange Agreement") with Vanguard, a New Jersey corporation, the Vanguard shareholders and the authorized representative of the Vanguard shareholders named therein providing for an exchange of 7,312,796 shares of the Company's common stock for all of the issued and outstanding shares of capital stock of Vanguard (the "Share Exchange"). Additionally, on January 21, 2005, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with Oak Finance Investments Limited ("Oak"), a British Virgin Islands company, providing for the sale of between 625,000 and 1,250,000 shares of the Company's common stock to Oak at a cash purchase price of $8.00 per share (the "Share Issuance"). The Company's Chairman, Chief Executive Officer and President, Mr. Shmuel BenTov had also entered into an agreement under which he agreed to sell all of his shares of Company capital stock to Oak in a separate transaction at $10.25 per share.

On August 4, 2005, the Company terminated the Share Exchange Agreement with Vanguard and its shareholders and the Stock Purchase Agreement with Oak, pursuant to the terms of each agreement.

As of June 1, 2006, the Company and Mr. BenTov (the "Helios & Matheson Releasors") entered into and delivered general releases and covenants not to sue, pursuant to which the Helios & Matheson Releasors released and covenanted not to sue Vanguard and certain Vanguard-related persons, including (without limitation) its directors, officers, agents and certain advisors of Vanguard (the "Vanguard Released Parties"), in connection with any and all claims existing as of the date of such releases and covenants, including, without limitation, any claims that were related to the terminated Vanguard transaction. In connection therewith, the Company received an aggregate of $1,100,000 (without giving the affect to the Company's payment of $219,000 for fees and costs incurred in connection with this recovery), and the Company and certain related persons, including (without limitation) Mr. BenTov, received general releases and covenants not to sue from certain of the Vanguard Released Parties.

Selling, General and Administrative expenses have been reduced by net proceeds of $881,000 from the release of claims relating to the terminated Vanguard transaction for the twelve months ended December 31, 2006.

In 2006, Helios & Matheson Parent, an IT services organization with its corporate headquarters in Chennai, India, acquired 52% of the outstanding voting stock of the Company. Helios & Matheson Parent is a publicly listed company on three stock exchanges in India, the National Stock Exchange (NSE), the Stock Exchange, Mumbai (BSE) and Madras Stock Exchange (MSE) and is included in the Bombay Stock Exchange 500 Stock Index.

Critical Accounting Policies

The methods, estimates and judgments the Company uses in applying its most critical accounting polices have a significant impact on the results the Company reports in its consolidated financial statements. The Company evaluates its estimates and judgments on an on-going basis. Estimates are based on historical experience and on assumptions that the Company believes to be reasonable under the circumstances. The Company's experience and assumptions form the basis for its judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what is anticipated and different assumptions or estimates about the future could change reported results. The Company believes the following accounting policies are the most critical to it, in that they are important to the portrayal of its financial statements and they require the most difficult, subjective or complex judgments in the preparation of the consolidated financial statements.

Goodwill and Intangible Assets

Goodwill acquired in a purchase and determined to have an indefinite useful life is not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. The Company's goodwill is also evaluated and tested on a periodic basis by an independent third party. If it is determined by the Company that goodwill has been impaired it will be written down at that time.

The Company's useful life of its intangible assets has been evaluated and it was determined that they would be amortized over a three year period. All intangible assets were fully amortized as of December 31, 2005.

Revenue Recognition

Consulting revenues are recognized as services are provided. The Company primarily provides consulting services under time and material contracts, whereby revenue is recognized as hours and costs are incurred. Customers for consulting revenues are billed on a weekly, semi-monthly and monthly basis. Revenues from fixed fee contracts are recorded when work is performed on the basis of the proportionate performance method, which is based on costs incurred to date relative to total estimated costs. Any anticipated contract losses are estimated and accrued at the time they become known and estimable. Unbilled accounts receivables represent amounts recognized as revenue based on services performed in advance of customer billings. Revenue from sales of software licenses is recognized upon delivery of the software to a customer because future obligations associated with such revenue are insignificant.

Allowance for Doubtful Accounts

The Company monitors its accounts receivable balances on a monthly basis to ensure that they are collectible. On a quarterly basis, the Company uses its historical experience to determine its accounts receivable reserve. The Company's allowance for doubtful accounts is an estimate based on specifically identified accounts as well as general reserves. The Company evaluates specific accounts where it has information that the customer may have an inability to meet its financial obligations. In these cases, management uses its judgment, based on the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected.

These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. The Company also establishes a general reserve for all customers based on a range of percentages applied to aging categories. These percentages are based on historical collection and write-off experience. If circumstances change, the Company's estimate of the recoverability of amounts due the Company could be reduced or increased by a material amount. Such a change in estimated recoverability would be accounted for in the period in which the facts that give rise to the change become known.

Valuation of Deferred Tax Assets

Deferred tax assets are reduced by a valuation allowance when, in the opinion of the Company, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company assesses the recoverability of deferred tax assets at least annually based upon the Company's ability to generate sufficient future taxable income and the availability of effective tax planning strategies.

Stock Based Compensation

Effective January 1, 2006, the Company adopted the modified prospective application method whereby compensation cost for the portion of awards for which the requisite service has not yet been rendered that are outstanding as of the adoption date of Statement 123 (R) will be recognized over the remaining service period. The compensation cost for that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under Statement 123, as originally issued. All new awards and awards that are modified, repurchased, or cancelled after the adoption date will be accounted for under the provisions of Statement 123 (R) and recognized as compensation cost over the applicable service period of each award.

Results of Operations

The following table sets forth the percentage of revenues of certain items included in the Company's Statements of Operations:

	Year Ended December 31,		
	2006	2005	2004
Revenues	100.0%	100.0%	100.0%
Cost of revenues	70.8%	70.5%	69.3%
Gross profit	29.2%	29.5%	30.7%
Operating expenses	25.5%	31.3%	25.2%
Income/(Loss) from operations	3.6%	(1.8)%	5.4%
Net income/(loss)	3.4%	(1.8)%	4.9%

Comparison of Year Ended December 31, 2006 to Year Ended December 31, 2005

Revenues. Revenues of the Company decreased by $1.5 million or 5.6% from $26.4 million for the year ended December 31, 2005 to $24.9 million for the year ended December 31, 2006. The decrease was primarily attributable to a decrease in project revenue associated with the timing of replacing a number of long term projects that were completed in the fourth quarter of 2005.

Software licensing revenues increased by $509,000 or 34.5% from $1.5 million in 2005 to $2.0 million in 2006. Software sales are expected to remain ancillary to the Company's total revenues in future years.

Gross Profit. The resulting gross profit for 2006 decreased by $529,000 or 6.8% from $7.8 million in 2005 to $7.3 million in 2006. As a percentage of total revenue, gross margin for the year remained relatively unchanged at 29.2%.

Operating Expenses. Operating expenses are comprised of Selling, General and Administrative ("SG&A") expenses and depreciation and amortization costs. Operating expenses decreased by $1.9 million, or 22.9% from $8.3 million in 2005 to $6.4 million in 2006. Operating expenses for 2006 include an offset of $881,000 of net proceeds received in connection with the release of claims relating to the terminated Vanguard transaction while operating expenses for 2005

included $1.2 million in pretax costs associated with the transaction. Excluding the proceeds received in 2006 and the cost incurred in 2005 in connection with the terminated transaction, operating expenses increased by $153,000 or 2.2% from $7.1 million in 2005 to $7.3 million in 2006 primarily as a result of an increase in other professional fees which was partially offset by a decrease in depreciation and amortization.

Taxes. Taxes increased $101,000 from $16,000 in 2005 to $117,000 in 2006. The increase is primarily due to higher state minimum taxes during 2006 as well as current Federal income tax expense of $102,000 in 2006. Income taxes are significantly less than the statutory rate due to the utilization of a portion of the Company's net loss carry-forward. The full utilization of the Company's Federal net operating loss carry-forward against pre-tax income is limited in periods subsequent to Helios & Matheson Parent acquiring 52% of the outstanding voting stock of the Company. In addition, deferred taxes were not impacted by the pre-tax income since such amounts are fully reserved as of December 31, 2006 and 2005, respectively.

Net Income/(Loss). As a result of the above, the Company had net income of $852,000 or $0.36 per basic and $0.35 per diluted share in 2006 compared to a net loss of ($484,000) or ($0.22) per share in 2005.

Comparison of Year Ended December 31, 2005 to Year Ended December 31, 2004

Revenues. Revenues of the Company increased by $1.4 million or 5.6% from $25 million for the year ended December 31, 2004 to $26.4 million for the year ended December 31, 2005. The increase was primarily attributable to industry wide increased IT spending and an increase in fixed price projects, as a result of increased marketing efforts by the Company.

Software licensing revenues increased by $125,000 or 9.3% from $1.3 million in 2004 to $1.5 million in 2005. Software sales are expected to remain ancillary to the Company's total revenues in future years.

Gross Profit. The resulting gross profit for 2005 increased by $127,000 or 1.7% from $7.7 million in 2004 to $7.8 million in 2005. As a percentage of total revenue, gross margin for the year decreased from 30.7% in 2004 to 29.5% in 2005. Gross margin decreased slightly primarily due to the mix of time and material work compared to fixed price projects.

Operating Expenses. Operating expenses are comprised of SG&A expenses and depreciation and amortization costs. Operating expenses increased by $1.9 million, or 30.9% from $6.3 million in 2004 to $8.3 million in 2005. The costs associated with the terminated transaction with Vanguard, represented $1.2 million of this increase. The balance of the increase, $786,000 or 12.4% was primarily attributable to costs of $190,000 related to Sarbanes-Oxley consulting services, an increase of $467,000 in payroll and related costs, and a stock compensation expense in the amount of $134,000 which were partially offset by a decrease in depreciation and amortization expenses.

Taxes. Taxes in 2005 were $16,000 compared to $99,000 in 2004. The decrease in income taxes was attributable to the decrease in income before income taxes from income of $1.3 million in 2004 to a loss of ($468,000) in 2005.

Net (Loss)/Income. As a result of the above, the Company had a net loss of ($484,000) in 2005 compared to net income of $1.2 million in 2004.

Liquidity and Capital Resources

The Company has a line of credit up to $4.0 million with Keltic based on the Company's eligible accounts receivable balances. Net availability at December 31, 2006 was approximately $2.0 million. The line of credit has certain financial covenants, which the Company must meet on a quarterly basis. There was no outstanding balance at December 31, 2006 or 2005, respectively. On March 23, 2004, the line of credit was amended and restated to include the following: an extension to June 2007, the removal of the guarantee of the Chief Executive Officer and less restrictive financial covenants. On March 23, 2005, the agreement was restated and amended, again to, among other things, include a waiver to certain financial covenants that the Company failed to comply with in the first quarter ending March 31, 2005. On December 1, 2005, the agreement was further amended to reset the EBITDA covenant effective as of October 1, 2005. On March 28, 2006, the agreement was further amended to allow Mr. Shmuel BenTov, the Company's Chairman, Chief Executive Officer and President, and his family to sell their stock ownership in the Company to Helios & Matheson Parent and to waive the default provision that required Mr. BenTov's ownership in the Company's outstanding shares not to fall below a level of 10%. The Company also failed to comply with the amended EBITDA covenant for the first quarter ending March 31, 2006

and a waiver was obtained from Keltic. The Company was in compliance with the financial covenants for the second, third and fourth quarters ending June 30, September 30 and December 31, 2006, respectively. The line of credit bears interest at a variable rate based on prime plus 1.75% and the rate was 10% at December 31, 2006. The line of credit currently expires on June 27, 2007.

The Company is prohibited from paying dividends on its common stock due to restrictions under the restated and amended Loan and Security Agreement with Keltic. Keltic has consented to the payment of dividends on the Series A and Series B Preferred Stock, provided an event of default does not exist. There were no outstanding shares of Series A or Series B Preferred Stock as of December 31, 2006 and 2005, respectively.

The Company acquired a 51% ownership interest in T3 Media as a result of several investments in 1998 and 1999. Due to deterioration in performance and market conditions for T3 Media's services, the operations of T3 Media ceased in the second quarter of 2001. T3 Media had entered into a series of capital lease obligations, which the Company had guaranteed, to finance its expansion plans, covering leasehold improvements, furniture and computer-related equipment. The amount outstanding under such leases was approximately $291,000 at December 31, 2006 and 2005, respectively, and is included in accounts payable and accrued expenses on the balance sheet.

The Company's cash balances were approximately $3.8 million at December 31, 2006 and $2.2 million at December 31, 2005. Net cash provided by operating activities in 2006 was approximately $1.8 million (which included $881,000 of net proceeds received in connection with the release of claims relating to the terminated Vanguard transaction) compared to net cash used in operating activities of $142,000 in 2005 (which included $1.2 million of Vanguard transaction related costs) and net cash provided by operating activities of $1.2 million in 2004.

The Company's accounts receivable, less allowance for doubtful accounts, at December 31, 2006 and December 31, 2005 were $4.0 million and $4.4 million, respectively, representing 48 and 53 days of sales outstanding, respectively. The accounts receivable at December 31, 2006 and 2005 included $316,000 and $435,000 of unbilled revenue respectively. The Company has provided an allowance for doubtful accounts at the end of each of the periods presented. After giving effect to this allowance, the Company does not anticipate any difficulty in collecting amounts due.

For the twelve months ended December 31, 2006, the Company had revenues from four customers, which represented 21%, 14%, 10% and 10% of revenues. For the year ended December 31, 2005, the Company had revenues from three customers, which represented 21%, 20% and 15% of revenues, respectively. No other customer represented greater than 10% of the Company's revenues for such periods.

The Company has a minority investment in Methoda Computer Ltd., a methodology provider and knowledgebase for IT management and software engineering based in Israel. In 2004 the carrying value of this investment was $368,000. In January of 2004, the Company sold approximately 75 percent of its investment in Methoda for $200,000 in cash and $81,000 payable over the next twenty months. The remaining investment has a carrying value of $87,000.

Net cash used in investing activities was approximately $128,000 and $93,000, for the years ended December 31, 2006 and 2005 respectively. Net cash provided by investing activities was approximately $44,000 for the year ended December 31, 2004. In each of the three years, this included additions to property and equipment of $128,000, $93,000 and $168,000 respectively.

On July 19, 2002, the Company acquired all of the common stock of IOT for a combination of cash consideration of $650,000 through debt financing and 317,500 shares of the Company's unregistered common stock, which has been retroactively adjusted to reflect the one-for-four reverse stock split that occurred on January 7, 2004 and was valued at $635,000.

The cash consideration of $650,000 was paid as follows and is reflected as a repayment of long-term debt: $140,000 on September 2, 2002; $210,000 on April 1, 2003; $100,000 on April 1, 2004 and $200,000 on January 2, 2005. The excess of the purchase price over the estimated fair value of the net identifiable assets acquired totaled $1,494,000 and was allocated as follows; $312,000 to intangible assets which was amortized on a straight line basis over thirty six months, and $1,182,000 to goodwill. The three majority shareholders of IOT received employment agreements for a three-year period at an annual salary of $160,000 per year each. During the second quarter of 2003, one of the former IOT principals left the Company. A buyout of his contract was negotiated and a portion of the intangible asset was written down ($23,000). From the date of acquisition through the end of year 2002, the Company recorded revenue attributed to IOT in the amount of $1,689,000. The Company recorded revenue attributable to the IOT acquisition in the amount of $2,771,000 and $4,154,000 for the years

ended December 31, 2005 and 2004, respectively. During the first quarter of 2006, IOT's operations were fully integrated into the Company.

Net cash provided by financing activities was approximately $30,000 in 2006, and net cash used in financing activities was approximately $98,000 in 2005 and $202,000 in 2004.

In management's opinion, cash flows from operations and borrowing capacity combined with cash on hand will provide adequate flexibility for funding the Company's working capital obligations for the next twelve months. There may be circumstances that would accelerate its use of liquidity sources, including, but not limited to, its ability to implement a profitable business model. If this occurs, the Company may, from time to time, incur additional indebtedness or issue, in public or private transactions, equity or debt securities. The Keltic line of credit expires on June 27, 2007. Thereafter, there can be no assurance that suitable debt or equity financing will be available to the Company.

In 2006, 21,468 shares of common stock were issued pursuant to the exercise of options issued under the Company's stock option plan. In 2005 and 2004, 56,032 and 14,688 shares of common stock were issued pursuant to the exercise of options issued under the Company's stock option plan. No other shares of common stock were issued pursuant to the exercise of options issued under the Company's stock option plan.

Off-Balance Sheet Arrangements

The Company did not have any "Off Balance Sheet Arrangements" in 2006, 2005, and 2004.

Contractual Obligations

The Company has the following contractual obligations as of December 31, 2006:

	Payments Due by Period				
Contractual Obligations	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Long Term Obligations					
Employment Contracts	690,000	540,000	150,000	—	—
Capital Lease Obligations					
Capital Lease — Short Term	290,517	290,517	—	—	—
Opertating Leases					
Rent (1)	191,100	191,100	—	—	—
Total	**$1,171,617**	**$1,021,617**	**$150,000**	**$—**	**$—**

(1) The Company has a New York facilty with a lease term expiring July 31, 2007 and a New Jersey facility with a lease term expiring August 31, 2007. The Company is in the process of negotiating the renewals of both of these leases and considering alternative leasing arrangements.

Recent Accounting Pronouncements

None.